

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4425-07
Bill No.: Perfected HS for HCS for HB 1877
Subject: Education, Elementary and Secondary: Gambling; Taxation and Revenue -
General; Motor Fuel; Revenue Dept; Treasurer, State
Type: Original
Date: March 13, 2002

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
General Revenue	(\$241,399 to Unknown)	\$0	\$0
Schools of the Future Fund	\$157,432,000	\$142,901,000	\$143,379,000
Total Estimated Net Effect on <u>All</u> State Funds	UP TO \$157,190,601	\$142,901,000	\$143,379,000

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Local Government	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 9 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Secretary of State's Office (SOS)** assumed the rules, regulations and forms issued by the Department of Revenue and the Missouri Gaming Commission could require as many as 16 pages in the *Code of State Regulations*. For any given rule, roughly half again as many pages are published in the *Missouri Register* in the Code because cost statements, fiscal notes and the like are not repeated in the Code. These costs are estimated. The estimated cost of a page in the *Missouri Register* is \$23. The estimated cost of a page in the *Code of State Regulations* is \$27. The actual cost for FY03 is estimated at \$984 but could be more or less than the numbers given. The impact of this legislation in future years is unknown and depends upon the frequency and length of rules filed, amended, rescinded or withdrawn.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriations process. Any decisions to raise fees to defray costs would be made in subsequent fiscal years.

Officials from the **Department of Revenue - Division of Taxation** and the **Department of Economic Development - Divisions of Finance and Credit Unions** stated this proposal would have no fiscal impact on their agencies.

SECTION 32.069 - Interest on State Tax Refunds

Officials from the **Office of State Treasurer (STO)** staff assume that there would be a revenue savings generated from linking the interest rate paid on refunds to the actual rate earned on state funds. However, STO will defer to the estimate provided by the Department of Revenue for this portion of the proposal.

Officials from the **Office of Administration - Division of Budget and Planning** and the **Department of Revenue** estimate the saving on non-payment of interest on tax refunds unless the payment is delayed for more than 120 days to be \$12,000,000 annually.

DOR provided the following assumptions regarding administrative impact as it relates to this portion of the proposed legislation:

ADMINISTRATIVE IMPACT

Because the interest rate applied to an overpayment is different than delinquencies, modifications to the income, corporate, motor fuel and withholding tax systems will be needed. Information Technology will need 4 Programmers for 4 months at a cost of \$92,340 to create a system to handle this process.

ASSUMPTION (continued)

This legislation will increase the printing and postage amounts utilized by the department because of the additional notices for underpays being issued to taxpayers. Because of confusion by the taxpayer on delinquent payments, it is anticipated that additional telephone calls will be received on the MOSAIX system. It is anticipated that one Tax Collection Tech I will be needed for every 24,000 calls a year resulting from the fluctuating interest rate on delinquencies.

Oversight assumes the DOR could absorb the work associated with the additional phone calls with existing staff. However, if the number of calls and related work increases significantly, the DOR may need to request additional staff through the appropriations process.

SECTION 136.320 - Amnesty of Penalties, Additions, and Interest

The following agencies responded to similar legislation (Perfected HCS for HB 1150, 1237, & 1327):

Officials from the **Department of Elementary and Secondary Education (DES)** assumes all new revenues resulting from the amnesty provision shall be deposited into the state school moneys fund and distributed to school districts.

Officials from the **Office of the State Courts Administrator (CTS)**, the **Attorney General's Office (AGO)**, the **Office of the State Treasurer (STO)** and the **Office of Administration, Administrative Hearing Commission (AHC)** assume this bill has no fiscal impact to their agencies.

Officials of the **Department of Revenue (DOR)** state this legislation provides statutory procedures for a limited tax amnesty program.

DOR assumes the portion of the proposal indicates amnesty only applies to state taxes but it should also include local taxes DOR collects. An amnesty sales tax form will need to be developed.

DOR assumes overtime may be incurred to have the amnesty wrapped up within the 60 days proposed in the legislation with notification back to the taxpayer of approval or not. Additional postage will be incurred, it is unknown, it could be \$10,000 or much more. It will depend on taxpayer response to the amnesty.

DOR assumes this legislation will impact several separate and unique systems MINITS, COINS, Employer Withholding, MITS, Motor Vehicle Delinquent Fee. Each of the systems will need program changes to generate letters to notify taxpayers of the amnesty program. Approval letters
ASSUMPTION (continued)

will also need to be generated. Each system will need to be programmed to earmark the amount collected as a result of the amnesty to the school moneys fund instead of GR. An amnesty program will need to be developed for each tax system in order to monitor and administer the program. DOR estimates that the above program changes (to all tax systems) will require 6,055 hours of programming for a total cost of \$201,995. The State Data Center cost to implement the proposed legislation will be \$39,404.

Officials from the **Office of Administration - Division of Budget and Planning** estimated a fiscal impact of \$15,000,000 as a result of this portion of the proposed legislation.

SECTION 143.261 - Timely Filing of Withholding Tax

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** estimate the elimination of the timely filing allowance for employers who submit withholding tax will result in annual income of \$18,400,000.

SECTION 143.431 - Disallows Non-Missouri Source Income for Corporate Income Tax

According to officials from the **Office of Administration - Division of Budget and Planning (BAP)** the estimated additional state revenue resulting from this portion of the proposal will be \$24,800,000 annually.

SECTION 143.435 - Add Back to Corporate Federal Taxable Income (Intangibles)

According to officials from the **Office of Administration - Division of Budget and Planning (BAP)** the estimated additional state revenue resulting from this portion of the proposal will be \$5,000,000 annually.

SECTION 144.190 - Erroneously Paid Tax

Officials from the **Office of Administration - Division of Budget and Planning (BAP)**, based on information provided by the **Department of Revenue**, estimated \$10,000,000 annually in decrease in sales tax refunds.

Section 313.820 - Increases the admission fee charged against an excursion gambling boat

Officials from the **Department of Public Safety - Gaming Commission** estimated annual revenues from the increase in admission fees from \$2 to \$3 to be \$47,661,000. This estimate was determined by using current trends applied to historical data detail by casino.

ASSUMPTION (continued)

SECTION 313.822 - Increasing Gaming Tax to 22% (From 20%)

Officials from the **Department of Public Safety - Gaming Commission** estimated revenues from the increase in gaming tax to be \$23,421,000 in FY 03; \$23,890,000 in FY 04; \$24,368,000 in FY 05. These estimates assumed flat patron volume and 2% annual gaming revenue increase.

<u>FISCAL IMPACT - State Government</u>	FY 2003	FY 2004	FY 2005
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GENERAL REVENUE

<u>Income</u> - Amnesty Tax Revenue (Section 136.320)	\$15,000,000	\$0	\$0
<u>Income</u> - Additional Corporate Income Tax (Section 143.435)	\$5,000,000	\$5,000,000	\$5,000,000
<u>Savings</u> - Interest on State Tax Refunds (Section 32.069)	\$12,000,000	\$12,000,000	\$12,000,000
<u>Savings</u> - Reduction in Sales Tax Refunds (Section 144.190)	\$10,000,000	\$10,000,000	\$10,000,000
<u>Savings</u> - Disallowance of Non-Missouri Source Income for Corporate Income Tax (Section 143.431)	\$24,800,000	\$24,800,000	\$24,800,000
<u>Savings</u> - Elimination of Timely Filing Allowance (Section 143.261)	<u>\$18,400,000</u>	<u>\$18,400,000</u>	<u>\$18,400,000</u>
Total <u>Income and Savings</u> - General Revenue	<u>\$86,350,000</u>	<u>\$71,350,000</u>	<u>\$71,350,000</u>

Cost - Department of Revenue

Postal	(Unknown)	\$0	\$0
Programing	<u>(\$241,399)</u>	<u>\$0</u>	<u>\$0</u>
	(\$241,399 to	\$0	\$0
Total <u>Cost</u> - Department of Revenue	Unknown)		

Loss - General Revenue

Decrease in additions to tax, penalties and interest	(Unknown)	\$0	\$0
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<u>FISCAL IMPACT - State Government</u>	FY 2003	FY 2004	FY 2005
<u>Transfer Out</u> - Schools of the Future Fund Amnesty Tax Revenue (Section 136.320)	(\$15,000,000)	\$0	\$0
<u>Transfer Out</u> - Schools of the Future Fund Corporate Income Tax (Section 143.435)	(\$5,000,000)	(\$5,000,000)	(\$5,000,000)
<u>Transfer Out</u> - Schools of the Future Fund Savings Due to Reduction in Sales Tax Refunds (Section 144.190)	(\$10,000,000)	(\$10,000,000)	(\$10,000,000)
<u>Transfer Out</u> - Schools of the Future Fund Savings Due to Not Paying Interest on State Tax Refunds (Section 32.069)	(\$12,000,000)	(\$12,000,000)	(\$12,000,000)
<u>Transfer Out</u> - Schools of the Future Fund Savings Due to Disallowance of Non- Missouri Source Income for Corporate Income Tax (Section 143.431)	(\$24,800,000)	(\$24,800,000)	(\$24,800,000)
<u>Transfer Out</u> - Schools of the Future Fund Savings Due to Elimination of Timely Filing Allowance (Section 143.261)	<u>(\$18,400,000)</u>	<u>(\$18,400,000)</u>	<u>(\$18,400,000)</u>
Total <u>Costs</u> - General Revenue	<u>(\$86,591,399 to Unknown)</u>	<u>(\$71,350,000)</u>	<u>(\$71,350,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>(\$241,399 to Unknown)</u>	<u>\$0</u>	<u>\$0</u>

SCHOOLS OF THE FUTURE FUND

<u>Transfer In</u> - General Revenue	\$86,350,000	\$71,350,000	\$71,350,000
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<u>FISCAL IMPACT - State Government</u>	FY 2003	FY 2004	FY 2005
<u>Income</u> - Increase admission fee for gambling boat from \$2 to \$3 (313.820)	\$47,661,000	\$47,661,000	\$47,661,000
<u>Income</u> - increase gaming tax to 22% of adjusted gross receipts (313.822)	<u>\$23,421,000</u>	<u>\$23,890,000</u>	<u>\$24,368,000</u>
ESTIMATED NET EFFECT TO THE SCHOOLS OF THE FUTURE FUND	<u>\$157,432,000</u>	<u>\$142,901,000</u>	<u>\$143,379,000</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses can expect a negative fiscal impact due to several provisions of this proposed legislation.

DESCRIPTION

This proposed legislation changes various provision of law to establish additional funding for schools. The proposal:

(1) Section 32.068 - Requires the State Treasurer's Office to determine, on a quarterly basis, the average rate of return on the investment of state funds over the prior twelve months. This rate will be provided to the Director of Revenue and used to calculate the amount of interest owed by the State on various tax refunds-essentially linking the rate paid on refunds to the actual return on state funds.

(2) Section 32.069 - Allows interest to be paid on state tax refunds only if payment is delayed for more than 120 days;

DESCRIPTION (continued)

(3) Section 136.320 - Authorizes a tax amnesty program allowing taxpayers to pay various back taxes owed prior to December 31, 2001, without penalty, additions to tax, or interest if the tax liability is paid in full during the period of August 1, 2002, through September 30, 2002;

- (4) Section 143.261 (REPEAL) - Eliminates the timely filing allowance for employers who submit withholding tax. The current allowance ranges from 0.5% to 2% depending on the amount withheld;
- (5) Section 143.431 - Disallows non-Missouri source income for corporate income tax;
- (6) Section 143.811 - Eliminates interest on tax credit carrybacks;
- (7) Section 144.190 - Requires that any request for a refund of sales taxes by a person who collects and remits the tax will only be granted if the person making the request demonstrates to the satisfaction of the Director of the Department of Revenue that the amount will be refunded or credited to the person who originally paid the sales tax. The restriction will not apply if the person seeking the refund shows to the director's satisfaction that he or she originally paid the tax and that it was not collected from the purchasers;
- (8) Section 313.820 - Increases the admission fee charged against an excursion gambling boat for each patron entering from \$2 to \$3; and
- (9) Section 313.822 - Increases the adjusted gross receipts tax paid by excursion gambling boats from 20% to 22%.
- (10) Section 143.435 - Requires the add back to corporate federal taxable income of a related-company's royalties, patents, or copyright fees or other intangible property expenses deducted on corporate federal tax returns.

All revenues resulting from these changes will be deposited in the newly created "Schools of the Future Fund". All moneys in the fund will be used solely for the purpose of fully funding state aid to public schools.

This proposal contains an emergency clause.

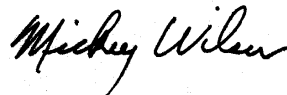
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space. **THIS PROPOSAL WOULD ADD TO TOTAL STATE REVENUE.**

SOURCES OF INFORMATION

Office of Administration
Division of Budget and Planning
Department of Revenue
Division of Taxation and Collection

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State Tax Commission
Department of Public Safety
Gaming Commission
Office of Secretary of State
Administrative Rules Division
Department of Elementary and Secondary Education
Office of State Treasurer

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA
Acting Director
March 13, 2002